

**Committee and Date**Cabinet
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Item

Public



Treasury Management Update Quarter 1 2023/24

Responsible Officer:	James Walton		
email:	james.walton@shropshire.gov.uk	Tel:	01743 258915
Cabinet Member (Portfolio Holder):	Cllr Gwilym Butler, Finance & Corporate Support		

1. Synopsis

The Council currently holds £69m in investments and £286m of borrowing. This report shows the return on those investments over quarter 1, the economic outlook for the next 3 years and confirms activities align with the Council approved Treasury Management Strategy.

2. Executive Summary

- 2.1 The report outlines the treasury management activities of the Council in the first quarter of 2023/24. It highlights the economic environment in which treasury management decisions have been made and the interest rate forecasts of the Council's Treasury Advisor, Link Asset Services. It also updates Members on the internal treasury team's performance.
- 2.2 During Quarter 1 the internal treasury team achieved a return of 3.99% on the Council's cash balances, outperforming the benchmark by 0.35%. This amounts to additional income of £68,900 during the quarter which is included within the Council's outturn position in the Financial Monitoring Report. Further details on this are provided in paragraph 10.4 of the report. The Monetary Policy Committee

(MPC) increased the Bank Rate to 4.50% in May 2023, and again in June 2023 to 5.00%. The Bank Rate is expected to increase again later this year and then peak with decreases anticipated in the 2024/25 financial year. The latest forecasts as at 26th June are included in the table below.

- 2.3 An overview of the general economic position is included as Appendix A, and with further detail in Appendix D. Decisions on Council investment activity are influenced by this wider context.
- 2.4 The economic outlook indicates the expectation of further increases in the bank rate in the coming months, but with those rates then reducing from March 2024
- 2.5 The council had £69.2m invested in the period, as set out in appendix A. This reflects a gradual reduction in the overall investment balance over previous periods. In the last financial year internal borrowing was around £135m, meaning that borrowing which otherwise would have been external could be funded internally saving significant costs. As cash balances continue their planned reduction, the Council will at the appropriate point revert to the need to secure external borrowing.
- 2.6 Taking the likely need to borrow in the next 6-12 months and current expectations of future Bank Rates, the Council will time borrowing decisions in a way which secures the best value while still ensuring sufficient cashflow liquidity to manage day-to-day operations.
- 2.7 The arrangements with Cornovii Developments Limited (CDL), and the policy agreed with the Housing Supervisory Board to enable work in the private rented sector, is expected to be funded through external borrowing. This will use the ability of the council to borrow and the position of CDL in relation to non-social housing to improve access to good quality rental opportunities for local people.
- 2.8 Under the CIPFA Treasury Management Code, it is best practice to provide quarterly Treasury Management updates. This report demonstrates compliance with that best practice.

3. Recommendations

- 3.1. Members are asked to review the position as set out in the report –
 - 3.1.1. Noting the summary of the wider economic environment and the Council's borrowings and investments set out in Appendix A
 - 3.1.2. Noting the performance within prudential indicators for quarter 1, 2023/24 (Appendix B)
 - 3.1.3. Approving the delegation to the Section 151 Officer to finalise financial arrangements for investment via CDL in the private rental sector.

Report

4. Risk Assessment and Opportunities Appraisal

- 4.1 The assessment and management of risk are key considerations for any Treasury Management approach. Compliance with the CIPFA Code of Practice on Treasury Management, the Council's Treasury Policy Statement and Treasury Management Practices and the Prudential Code for Capital Finance together with the rigorous internal controls will enable the Council to manage the risk associated with Treasury Management activities and the potential for financial loss.
- 4.2 The Council's Audit Committee is the committee responsible for ensuring effective consideration of the Council's Treasury Management Strategy and policies.
- 4.3 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.
- 4.4 There are no direct environmental, equalities or climate change consequences arising from this report.

5. Financial Implications

- 5.1 The Council makes assumptions about the levels of borrowing and investment income over the financial year. Reduced borrowing as a result of capital receipt generation or delays in delivery of the capital programme will both have a positive impact of the council's cash position. Similarly, higher than benchmarked returns on available cash will also help the Council's financial position. For monitoring purposes, assumptions are made early in year about borrowing and returns based on the strategies agreed by Council in the preceding February. Performance outside of these assumptions results in increased or reduced income for the Council.
- 5.2 The Quarter 1 performance is above benchmark and has delivered additional income of £68,900 which is reflected in the Financial Monitoring Report Quarter 1 2023/24.
- 5.3 As at 30 June 2023 the Council held £69 million in investments as detailed in Appendix A and borrowing of £286 million at fixed interest rates. The ability to secure fixed rates helps to manage the uncertainty and risk of changes to interest rates.

6. Climate Change Appraisal

- 6.1. The Council's Financial Strategy includes proposals to deliver a reduced carbon footprint for the Council therefore the Treasury Team is working with the Council in order to achieve this. There are no direct climate change impacts arising from this report. Shropshire Council's investment portfolio has no level 1, 2 or 3 emissions. It comprises of straightforward cash deposits with financial institutions and other Local Authorities.

7. Background

- 7.1. The Council defines its treasury management activities as “the management of the authority’s borrowing, investments and cash flows, its banking, money market and capital market transactions, the effective control of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks”. The report informs Members of the treasury activities of the Council between 1 April 2023 and 30 June 2023.
- 7.2. The council had £69.2m invested in the first quarter period, as set out in Appendix A. This is a reduction in the overall investment balance over previous periods, and reflects the gradual application of reserves in line with budget plans across recent years (for example – cash balances were increased by the way government funded COVID costs, providing the funding ‘up front’ to Councils, on the expectation that funds would be applied and balances carried forward slowly reduced.) During the period of comparatively high cash balances, the council has benefited from the ability to fund borrowing internally (‘internal borrowing’) rather than needing to secure external borrowing (via PWLB).
- 7.3. Cornovii Developments Limited (CDL), in line with the policy agreed by the Housing Supervisory Board (HSB), is expecting to undertake actions within the private rented sector. This will use the ability of the council to borrow funds and the position of CDL in relation to non-social housing to improve access to good quality rental opportunities for local people. The value is estimated to be within the region of £5m to £8m, as approved by HSB. To enable appropriate borrowing to be undertaken this will need to be delegated to the Section 151 Officer to finalise financial arrangements based upon suitable loan rates. Current calculations indicate rates are needed to be below 5.5% to make the proposal viable.

8. Economic Background

- 8.1. An overview of the general economic position is included as Appendix A, and with further detail in Appendix D. Decisions on Council investment activity are influenced by this wider context. This highlights:
- contraction in outputs as evidenced by reductions in the Purchasing Managers Indices (PMI),
 - a tight labour market seen in wage settlements, some easing in unemployment data, and some growth in employment.
 - continued high inflation rates seen in Consumer Price Indices (CPI) influencing Bank of England decisions on increases to the Bank Rate, with associated economic risks (e.g. to household spending capacity, increased borrowing costs, and higher service input costs) as well as benefits (e.g. higher returns on investments such as gilts and invested balances)
- 8.2. For wider context and consideration of the global financial outlook, an economic and borrowing update for the first quarter of 2023/24 is attached in Appendix D.

9. Economic Forecast

- 9.1. The Council receives its treasury advice from Link Asset Services. Their latest interest rate forecasts to 30 June 2026 are shown below. Bank Rate was increased in May 2023 to 4.50%, and again in June 2023 to 5.00%. The Bank Rate is expected to increase again later this year and then peak with decreases anticipated in the 2024/25 financial year. This will impact on future investment returns and the consequent benchmark.

Link Group Interest Rate View	26.06.23												
	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26
BANK RATE	5.00	5.50	5.50	5.50	5.25	4.75	4.25	3.75	3.25	2.75	2.75	2.50	2.50
3 month ave earnings	5.30	5.60	5.50	5.30	5.00	4.50	4.00	3.50	3.00	2.70	2.60	2.50	2.50
6 month ave earnings	5.80	5.90	5.70	5.50	5.10	4.60	4.00	3.50	3.00	2.70	2.60	2.60	2.60
12 month ave earnings	6.30	6.20	6.00	5.70	5.30	4.80	4.10	3.60	3.10	2.80	2.70	2.70	2.70
5 yr PWLB	5.50	5.60	5.30	5.10	4.80	4.50	4.20	3.90	3.60	3.40	3.30	3.30	3.20
10 yr PWLB	5.10	5.20	5.00	4.90	4.70	4.40	4.20	3.90	3.70	3.50	3.50	3.50	3.40
25 yr PWLB	5.30	5.40	5.20	5.10	4.90	4.70	4.50	4.20	4.00	3.90	3.80	3.80	3.70
50 yr PWLB	5.00	5.10	5.00	4.90	4.70	4.50	4.30	4.00	3.80	3.60	3.60	3.50	3.50

10. Treasury Management Strategy

- 10.1. The Treasury Management Strategy (TMS) for 2023/24 was approved by Full Council on 2 March 2023. The Council's Annual Investment Strategy, which is incorporated in the TMS, outlines the Council's investment priorities as the security and liquidity of its capital.
- 10.2. The Council aims to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. In the current economic climate, it is considered appropriate to:
- Keep investments short term (up to 1 year),
 - Only invest with highly credit rated financial institutions using Link's suggested creditworthiness approach, including sovereign credit rating and Credit Default Swap (CDS) overlay information provided by Link.
 - The Treasury Team continue to take a prudent approach keeping investments short term and with the most highly credit rated organisations.
- 10.3 In the first quarter of 2023/24 the internal treasury team outperformed its benchmark by 0.35%. The investment return was 3.99% compared to the benchmark of 3.64%. This amounts to additional income of £68,900 during the quarter which is included in the Council's outturn position in the Financial Monitoring Report.
- 10.4 From April 2022 the Treasury team are benchmarked against the 3 Month Sterling Overnight Index Average (SONIA). We have now moved into a rising interest rate environment and therefore the benchmark rate has also increased sharply on the back of this. It should be noted that within the current investment portfolio, there are still several longer-term legacy investments fixed at much lower rates when the Bank Rate was at 1.25%, still to renew. These investments were placed when market rates were much lower. These will mature over the coming months and be replaced at much higher rates therefore the return of the investment portfolio will

increase significantly, and the performance compared to benchmark will become more favourable.

- 10.5 A full list of investments held as at 30 June 2023, compared to Link's counterparty list, and changes to Fitch, Moody's and Standard & Poor's credit ratings are shown within Link's Monthly Investment Analysis Review at Appendix A. None of the approved limits within the Annual Investment Strategy were breached during the first quarter of 2023/24. Officers continue to monitor the credit ratings of institutions on a daily basis. Delegated authority has been put in place to make any amendments to the approved lending list.
- 10.6 Due to the MPC's decision to increase Bank Rate to 4.5% in May 2023 and further to 5% on 22nd June 2023, investment and borrowing rates have increased on the back of this. The average level of funds available for investment purposes in the first quarter of 2023/24 was £78.4 million.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

Council, 2 March 2023 – Treasury Strategy 2023/24

Local Member:

N/A

Appendices [Please list the titles of Appendices]

- A. Shropshire Council Monthly Investment Analysis Review as at 30 June 2023 (provided by Link Group)
- B. Prudential Indicators for Quarter 1 2023/24
- C. Prudential Borrowing Schedule
- D. Economic Background and Borrowing Update